

Message Text

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7614

ERDA GERMANTOWN

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FOR ASFRIEDMAN, ERDA, FROM HENOCH

E.O. 11652: N/A

TAGS: TECH, JA

SUBJECT: UEA-JAPANESE

1. ESC REPRESENTATIVE BRIEFED EMBOFFS ON JAN 16-17 MEETINGS OF UEA WITH ESC AND JAN. 23 REPORT OF ESC TO GENERAL ASSEMBLY (PRESIDENTS NINE JAPANESE ELECTRIC POWER COMPANIES). THERE ARE THREE PARTS OF THE STORY: A) JAPANESE VERSION KOMES AND O'DONNEL MEETINGS WITH ESC, B) STATEMENT REGARDING DISSOLUTION ESC AND TAKEOVER OF RESPONSIBILITIES BY ERG, C) REQUIREMENT FOR NEW ERG SURVEY OF PROBLEMS RELATED TO JAPAN'S PARTICIPATION IN UEA. EDITED TRANSLATIONS OF THESE FOLLOW ON PAGES 3 THROUGH 13.

2. UEA PROVIDED COPIES TO ESC OF DECEMBER 27 LETTER FROM CRAWFORD, PRESIDENT EEI, TO US UTILITY COMPANIES (ASSUME COPY AVAILABLE).

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3. SUMMARY.

A. MAJOR ITEMS IN EEI LETTER WHICH IMPACT UPON JAPANESE THINKING ARE: 1) CURRENT UEA ESTIMATE THAT FOREIGN DEMAND WILL REQUIRE 60 PERCENT OF PLANT'S CAPACITY AND US UTILITIES WILL REQUIRE LESS THAN 20 PERCENT, 2) FACT THAT UEA EFFORT NOW ENVISIONED AS MULTINATIONAL IN CHARACTER RATHER THAN BILATERAL AND 3) ABSENCE FROM USG COMMITMENT.

B. ESC'S JOINT FEASIBILITY STUDY WITH UEA WAS BASED UPON A JAPAN-US BILATERAL WITH A MAJORITY OF US UTILITY PARTICIPATION. THIS NEW ARRANGEMENT IS A DIFFERENT APPROACH WHICH THE JAPANESE HAVE TO THINK ABOUT. OF PRIMARY CONCERN IS THE SIGNIFICANT DECREASE IN US UTILITY PARTICIPATION. AS IS KNOWN, US UTILITIES THINKING STRONGLY INFLUENCE THE JAPANESE.

C. MOST IMPORTANTLY, RECENT CHANGES IN THE ENTIRE FINANCIAL PICTURE HAVE SEVERELY AFFECTED LONG TERM, EXPENSIVE CONSTRUCTION PROJECTS SUCH AS NUCLEAR POWER PLANTS. THE INFLATION AND RECESSION CURRENTLY BEING EXPERIENCED HERE GIVES CAUSE FOR REVIEWING FUTURE COMMITMENTS. ADDITIONALLY, RECENTLY INVOKED CONSERVATION MEASURES HAVE AFFECTED ELECTRICITY CONSUMPTION SO THAT LONG TERM FORECASTS OF FUTURE ELECTRIC GENERATING CAPACITY REQUIREMENTS NEED ADJUSTMENT. SERIOUS QUESTIONS HAVE ALSO BEEN RAISED ABOUT JAPAN'S ABILITY TO MEET THE GOAL OF 60,000 MWE NUCLEAR INSTALLED CAPACITY BY 1985. CONSEQUENTLY, THE ENTIRE BASIS OF JAPAN'S FORECASTS NEEDS A FRESH LOOK.

C. THE SAME SORT OF REVIEW IS NEEDED IN REGARD TO THE PARTICIPATION OF JAPAN IN A JOINT UEA PROJECT. QUESTIONS OF QUANTITY AND TIMING OF ENRICHED URANIUM DELIVERIES DEPEND UPON THE RESULTS OF NUCLEAR CAPACITY FORECASTS. ADDITIONALLY, THE SAME PROBLEMS OF FINANCING MUST BE FACED REGARDING A LARGE INVESTMENT FOR AN ENRICHING PLANT.

E. ESC IS TO BE DISSOLVED MARCH 31, 1975. ESC HAS COMPLETED PHASE ONE, NAMELY, THE TECHNICAL EVALUATION OF ALTERNATIVE ENRICHMENT APPROACHES. ERG WILL THEN START PHASE TWO, A STUDY OF THE FINANCIAL AND ECONOMIC ASPECTS OF THE NEED FOR, TIMING OF AND BEST APPROACH TO FINANCING THE PLANTS NEEDED TO PROVIDE FOR JAPAN'S FUTURE ENRICHMENT REQUIREMENTS. THIS TASK IS EXPECTED TO TAKE ONE YEAR.

(END SUMMARY.)

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4. FOLLOWING ARE SECTIONS (A) THE JAPANESE UNDERSTANDING OF WHAT TOOK PLACE IN THEIR MEETING WITH UEA, (B) A STATEMENT ON THE DISSOLUTION OF ESC AND THE ESTABLISHMENT OF ERG, AND (C) THE FIRST ERG TASK OF CONDUCTING THE REFORECASTING OF JAPAN'S NUCLEAR POWER PROGRAM AND IDENTIFYING THE MOST ADVANTAGEOUS ARRANGEMENT FOR OBTAINING THEIR ENRICHED URANIUM REQUIREMENTS.

(A) UEA-ESC MEETING (EDITED TRANSLATION)

UEA'S KOMES AND O'DONNEL VISITED JAPAN FOR PURPOSE OF BRIEFING JAPANESE ON CURRENT UEA PROGRAM. IN JAPAN THEY MET WITH ESC, JAPCO CHAIRMAN IPPONMATSU, TEPCO VICE PRESIDENT TANAKA, KEPCO VICE PRESIDENT ITO AND CHUBU EPCO VICE PRESIDENT WATANABE (KOMES AND O'DONNEL ARE SCHEDULED TO VISIT IRAN AND FRANCE THIS WEEK.) EMBASSY COMMENT. THEY ALSO MET WITH AMBASSADOR HODGSON.

1. ASSISTANCE FROM US GOVERNMENT

UEA IS ASKING US GOVERNMENT FOR ASSISTANCE AS STATED BELOW AND USG REACTION HAS BEEN FAVORABLE. UEA WILL PROBABLY CONFIRM USG ASSISTANCE IN THE FORM OF A CONTRACT, OR OTHER MEANS.

A. PURCHASE OF SWU BY USG

1) PURCHASE FOR NATIONAL STOCKPILE (ERDA COULD PURCHASE 5-10,000 TONS UNDER PRESENT LAW BUT PLANS 1500 TO 2000 TONS).

2) PURCHASE OF SWU IN CASE OF WITHDRAWAL OF CUSTOMER.

B. SUPPLY OF BARRIERS AND SEALS FROM USG AND ASSURANCE FOR SUCH SUPPLY.

C. ASSURED COMPLETION OF PLANT (IF UEA UNABLE TO COMPLETE THE PLANT, USG WILL UNDERTAKE TO DO SO).

D. ACCESS TO TECHNOLOGY AND MANPOWER CONCERNING PLANTS NOW OWNED BY USG.

2. MOVES OF AMERICAN UTILITIES

EEI'S AD HOC COMMITTEE (CHAIRIED BY GOULD, PRESIDENT, SOUTHERN CALIFORNIA EDISON) JUDGED THAT, PROVIDED GOVERN- LIMITED OFFICIAL USE

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MENT ASSISTANCE AS MENTIONED IN 1. ABOVE CAN BE OBTAINED, UEA'S PROPOSAL IS APPROPRIATE AS BASIS FOR NEGOTIATIONS ON A CONTRACT SINCE THE SO-CALLED "HELL OR HIGH WATER" CLAUSE WILL BE ELIMINATED, BECOMING THE ORDINARY "TAKE OR PAY" CONDITION. THE COMMITTEE NOTIFIED UTILITIES IN DECEMBER TO THAT EFFECT AND THAT EACH UTILITY MAY NEGOTIATE WITH UEA INDEPENDENTLY. COMMITTEE'S CONCLUSION WAS REPORTED TO EEI'S POLICY COMMITTEE ON NUCLEAR POWER AND AT CONFERENCE OF ITS CHIEF EXECUTIVES WHICH WAS HELD IN PHOENIX, ARIZONA ON JANUARY 16, 1975.

UTILITIES NOW IN CONTACT ARE SOUTHERN CALIFORNIA EDISON, DUKE POWER, SOUTHERN COMPANY, GENERAL PUBLIC, NEW ENGLAND GROUP, COMMONWEALTH EDISON, PHILADELPHIA ELECTRIC, AND ARIZONA PUBLIC UTILITIES. AMONG THEM, SOUTHERN CALIFORNIA

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ERDA GERMANTOWN

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FOR ASFRIEDMAN, ERDA, FROM HENOCH

EDISON HAS ALREADY ISSUED A LETTER OF INTENT. FIVE TO
EIGHT LETTERS OF INTENT ARE EXPECTED BY END OF THE MONTH.

IT IS CONCEIVABLE THAT UEA WILL DECIDE TO GO AHEAD
WITH A DEMAND EQUIVALENT TO 75 PERCENT (THE GO-NO GO LEVEL)
OF 9,000-TON INSTALLED CAPACITY. IF ASSUMED THAT DEMAND IN UNITED
STATES IS 40 PERCENT, AND IF USG PURCHASE (2000 TONS)
INCLUDED IN THIS QUANTITY IS TAKEN INTO ACCOUNT, THEN
1500 TONS WILL SUFFICE FROM US UTILITIES.

3. BUSINESS PARTNERS

NEGOTIATIONS ARE UNDER WAY WITH GOODYEAR TIRE AND
RUBBER AS NEW PARTNER CANDIDATE. DEFINITE DECISION
EXPECTED LATE IN JANUARY OR EARLY FEBRUARY. GOODYEAR,
OPERATOR OF PORTSMOUTH PLANT, HAS SUFFICIENT
TECHNICAL EXPERIENCE. UEA'S INTENTION IS TO FORM
ASSOCIATION WITH GOODYEAR FIRST, THEN HAVE FIVE MORE

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US COMPANIES PARTICIPATE BY END OF JUNE. LATER TO CALL UPON FOREIGN COUNTRIES FOR PARTICIPATION.

4. FOREIGN COUNTRIES

THE U.S. AND IRAN GOVERNMENTS WERE TO HOLD DISCUSSIONS ON LONG-TERM SUPPLY OF ENRICHED URANIUM AT THERAN, BEGINNING JANUARY 20. ASSISTANT SECRETARY OF STATE RAY AND OTHERS WERE TO GO TO TEHERAN, ACCCOMPANIED BY KOMES AND O'DONNE. IRAN EXPECTS TO CONTRACT FOR ABOUT 500-TON SWU PER YEAR.

AFTER VISITING IRAN, UEA TO MEET WITH EURODIF IN PARIS. EDF IS INTERESTED IN PURCHASING 1,000-TON SWU FROM UEA AS A BACK SUPPLY FOR 1983.

AT PRESENT, DEMANDS ARE ESTIMATED AS FOLLOWS:

WEST GERMANY	1,000 TONS SWU
FRANCE	1,000 TONS SWU
IRAN	500 TONS SWU

FROM CONDITIONAL CONTRACTS - 1,500 TO 3,000 TONS SWU. UEA ESTIMATES DEMANDS FROM FOREIGN COUNTRIES WILL AMOUNT TO MORE THAN 60 PERCENT OF PLANT CAPACITY.

(B) DISSOLUTION OF ESC (EDITED TRANSLATION)

AT THE FOURTH GENERAL ASSEMBLY IT WAS DECIDED TO DISSOLVE ESC ON MARCH 31, 1975 SINCE ESC HAS ACHIEVED ITS OBJECTIVE BY FINISHING "THE STUDIES ON THE POSSIBILITY OF JAPAN'S PARTICIPATION IN INTERNATIONAL URANIUM ENRICHMENT PROGRAMS".

ESC'S WORK WILL BE TAKEN OVER BY THE ENRICHMENT AND REPROCESSING GROUP (ERG) ESTABLISHED BY THE NINE UTILITIES AND JAPCO IN JUNE 1974. FOLLOWING ARE THE PAST DEVELOPMENTS:

(1) ESC WAS ESTABLISHED IN CRIEPI IN MARCH 1972 WITH COOPERATION FROM THE GOVERNMENT AND THE PRIVATE SECTOR TO STUDY THE POSSIBILITY OF PARTICIPATION IN INTER-NATIONAL URANIUM PROGRAMS IN LINE WITH JAEC'S "POLICY FOR

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SECURING ENRICHED URANIUM ON A STABLE BASIS". AT THAT

TIME, ESC WAS PLANNED TO EXIST FOR TWO TO THREE YEARS.
(2) SINCE THEN, ESC CONDUCTED VARIOUS STUDIES, SUCH AS
JOINT STUDIES WITH DEA OF FRANCE (MARCH 1972 THROUGH
MAY 1973), STUDIES THROUGH PARTICIPATION IN ACE
ESTABLISHED BY THE UNITED KINGDOM, THE NETHERLANDS AND
WEST GERMANY, JOINT STUDIES WITH UEA, AND STUDIES ON
OTHER INTERNATIONAL URANIUM ENRICHMENT PROGRAMS.

(3) IT IS JUDGED THAT ESC HAS FULFILLED ITS MISSION,
CONSEQUENTLY ESC WILL BE TERMINATED MARCH 31, 1975.

(4) ERG WILL CONDUCT STUDIES BUILDING ON ESC'S
ACCOMPLISHMENTS.

(C) ERG SURVEY (EDITED TRANSLATION)

FOR MORE THAN TWO YEARS ESC HAS CONDUCTED JOINT
STUDIES WITH MAJOR COUNTRIES ON THE POSSIBILITY OF PAR-
TICIPATION IN INTERNATIONAL URANIUM ENRICHMENT PROGRAMS.
FROM U.S., ESC CONDUCTED STUDIES WITH UEA ON THE
POSSIBILITY OF AN ENRICHMENT VENTURE SITED IN U.S.
THE STUDIES WERE COMPLETED AT THE END OF 1974.

FOLLOWING IS (1) AND OUTLINE OF THE JOINT STUDIES AND
(2) POSSIBLE FOREIGN CUSTOMERS AND (3) JAPANESE PROBLEMS AND
FUTURE WORK REQUIRED:

1) OUTLINE OF JOINT STUDIES

A. NEXT ENRICHMENT PLANT. CONSIDERING THE WORLD-
WIDE OUTLOOK ON ENRICHED URANIUM, PARTIAL OPERATION
SHOULD START AROUND 1982 AND FULL OPERATION AROUND 1983.

B. CAPACITY OF PLANT: 9,000 TONS SWU PER YEAR.

C. TECHNOLOGY TO BE ADOPTED: FROM THE STUDIES OF
GASEOUS DIFFUSION AND CENTRIFUGE PROCESSES WITH
RESPECT TO TECHNICAL RELIABILITY, ECONOMICS AND
FUND RAISING, IT WAS DECIDED THE FIRST NEW ENRICH-
MENT PLANT SHOULD BE A GASEOUS DIFFUSION PROCESS.
THIS CONCLUSION WOULD NOT CHANGE EVEN IF THE PLANT
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SCHEDULE SLIPS BY ONE TO TWO YEARS.

D. SITING AND POWER SUPPLY. 1700-ACRE SITE WILL BE
PURCHASED NEAR DOTHAN, ALABAMA. PLANT WILL REQUIRE
2,450 MWE POWER TO BE SUPPLIED FROM THREE NUCLEAR
POWER PLANTS OF A UTILITY CONSORTIUM.

E. PRELIMINARY CONTRACT PROVISIONS AND CHARGE:

1. DELIVERY SCHEDULES, PREPARATION OF FEED, TAILS OWNERSHIP WILL BE ALMOST UNCHANGED FROM PRESENT CONTRACTS WITH THE AEC EXCEPT DOWN PAYMENTS WILL NOT BE REQUIRED.

2. A 25-YEAR TAKE OR PAY FORMULA WILL BE ADOPTED. HOWEVER, ALLOUT SUPPORT WILL BE OBTAINED FROM ERDA AND INSURANCE MEASURES TAKEN, SO THAT CUSTOMERS WILL NOT SUFFER LOSS OWING TO PLANT INCIDENTS OR OTHER CAUSES.

3. FIRST CUSTOMERS PARTICIPATING IN THE ESTABLISHMENT OF THE ENRICHMENT VENTURE WILL BEAR ONLY ACTUAL COSTS. CHARGES TO OTHER CUSTOMERS WILL DEPEND UPON THE MARKET.

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ERDA GERMANTOWN

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FOR ASFRIEDMAN, ERDA, FROM HENOCHE

4. FOREIGN CUSTOMERS WILL PARTICIPATE IN PROPORTION TO AMOUNT OF ENRICHING SERVICES RECEIVED.

5. AVERAGE CHARGE WILL BE \$73 PER SWU (1974 PRICE LEVEL) ON A COST RECOVERY BASIS DURING THE CONTRACTING PERIOD.

F. CONSTRUCTION COST: \$2,750 MILLION (1974 PRICE LEVEL).

G. FUND PROGRAM: THE RATIO BETWEEN INVESTMENTS AND LOANS WILL BE 15:85. IN GENERAL, FROM COUNTRIES OTHER THAN U.S., INVESTMENTS AND LOANS PROPORTIONATE TO REQUIREMENTS WILL BE REQUIRED. FOR JAPAN, ASSUMING 2,000 TONS SWU PER YEAR, THE AMOUNT WILL BE 22.2 PERCENT OR \$85 MILLION INVESTMENTS AND \$492 MILLION LOANS, TO BE PAID OVER TEN-YEAR CONSTRUCTION PERIOD. ANNUAL PAYMENTS ABOUT \$3.3 MILLION FOR THE FIRST SEVERAL YEARS, AND ABOUT \$166 MILLION IN THE YEAR OF MAXIMUM PAYMENT (EIGHTH YEAR).

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H. RESULTS OF JOINT STUDIES: THE UEA PROGRAM IS APPROPRIATE IN TIMING, TECHNICAL AND ECONOMIC ASPECTS. SINCE THE AEC IS GIVING ALLOUT SUPPORT WITH TECHNOLOGY, MANPOWER, BARRIERS AND ENRICHMENT STOCKPILES, PUTTING THE UEA PROGRAM ON AN INDUSTRIAL BASIS IS POSSIBLE DEPENDENT UPON SECURING CUSTOMERS AND RAISING FUNDS. MEANWHILE, NEGOTIATIONS FOR NEW PARTNERS ARE UNDER WAY WITH GOODYEAR TIRE AND RUBBER AND OTHER LEADING COMPANIES.

2) POSSIBLE FOREIGN CUSTOMERS

A. UNITED STATES

AT THE START, EEI OBJECTED TO UEA'S CONTRACT PROVISIONS. HOWEVER, AFTER SEVERAL EEI-UEA MEETINGS, EEI WROTE TO UTILITIES THROUGHOUT THE U.S., SAYING THAT /EEI CONSIDERS UEA'S CONTRACT CONDITIONS TO BE ADEQUATE AS A BASIS FOR NEGOTIATIONS." SOME UTILITIES HAVE ALREADY BEGUN NEGOTIATIONS WITH UEA. THE AEC HAS INDICATED IT WILL ASSURE SUPPLY AND DEMAND ON THE UEA PLANT PURCHASE THROUGH A STOCKPILE OPERATION.

C. EUROPE

FRANCE, WEST GERMANY AND SPAIN ARE INTERESTED IN THE UEA PROGRAM, AND ARE CONDUCTING DISCUSSIONS.

C. IRAN

IRAN IS CONTACTING UEA ON THE BASIS OF A JOINT STATEMENT OF THE IRANIAN GOVERNMENT AND US SECRETARY OF STATE.

ALSO, IRAN SEEMS TO BE CONSIDERING UEA AS THE BOJECT OF OIL DOLLAR INVESTMENT.

D. JAPAN

IN JULY 1974 IT WAS DECIDED THAT 2,000 TONS SWU WOULD BE PURCHASED EACH YEAR, BEGINNING IN 1984, ON CONDITION THAT USG AND INDUSTRY AGREE ON THIS VENTURE AND THAT CONSIDERABLE COMMITMENT IS MADE BY U.S. UTILI-LIMITED OFFICIAL USE

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TIES. IN THIS CONNECTION, UEA RECENTLY STRONGLY REQUESTED FIRM COMMITMENT ON SWU REQUIREMENTS AND PARTICIPATION IN INDUSTRIALIZATION OF THE VENTURE.

3) PROBLEMS ABOUT JAPANESE PARTICIPATION, AND FUTURE WORK REQUIRED.

A. THE UEA PROGRAM IS STILL FLUID, AND IT IS NOT YET THE TIME FOR A FINAL CONCLUSION. FROM A LONG-RANGE VIEW, JAPAN'S PARTICIPATION IS APPROPRIATE, PROVIDED THE FOLLOWING CONDITIONS ARE MET:

1. A CONTRACT ENVIRONMENT, ACCEPTABLE TO THE CUSTOMERS, WILL BE CREATED THROUGH, FOR EXAMPLE, AN ASSISTANCE CONTRACT BETWEEN ERDA AND UEA.

2. CONSIDERABLE SWU REQUIREMENTS FROM AMERICAN UTILITIES.

3. BECHTEL TO FIND NEW PARTNERS TO TAKE THE PLACE OF WH AND UC, AND ADQUATE INVESTMENTS BE MADE BY THE NEW PARTNERS.

B. IN CASE OF JAPAN'S PARTICIPATION IN THE UEA PROGRAM, THOROUGH STUDIES ON THE FOLLOWING POINTS NECESSARY:

1. DETERMINATION OF QUANTITY AND TIMING OF PURCHASE.
2. STUDIES ON CONTRACT PROVISIONS.
3. STUDIES ON INVESTMENTS AND LOANS.
4. ESTABLISHMENT OF DOMESTIC SYSTEM FOR JAPAN'S PARTICIPATION.

C. AS FOR JAPAN, PROMOTION OF THE UEA PROGRAM SHOULD CENTER ON THE UTILITIES ACTING AS CUSTOMERS AND SOURCES OF INVESTMENTS AND LOANS. THEREFORE, WHEN STUDIES ON THE POSSIBILITY OF AN INDUSTRIAL VENTURE HAVE BEEN COMPLETED, IT IS PLANNED THAT ERG WILL PLAY THE CENTRAL ROLE.

HODGSON

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Message Attributes

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